



STATE WATER PROJECT CONTRACT EXTENSION PROJECT

Draft Meeting Summary and Action Items

State Water Project Contract Extension Project

May 29, 2013 10:00 AM – 3:00 PM

Draft Meeting Attendance List

<p><u>California Department of Water Resources</u> <u>Lead Negotiators</u></p> <ul style="list-style-type: none"> • Carl Torgersen, California Department of Water Resources • Perla Netto-Brown, California Department of Water Resources • Steve Cohen, California Department of Water Resources • Rob Cooke, California Department of Water Resources • Vera Sandronsky, California Department of Water Resources • Ralph Torres, Advisor, California Department of Water Resources <p><u>State Water Project Contractor Lead Negotiators</u></p> <ul style="list-style-type: none"> • Dan Flory, Antelope Valley-Eastern Kern Water Agency • Paul Gosselin, Butte County • Valerie Pryor, Castaic Lake Water Agency • Curtis Creel, Kern County Water Agency • Mark Krause, Desert Water Agency • Dale Melville (by phone), Dudley Ridge Water District • Kathy Cortner, Mojave Water Agency • Phillip Miller (by phone), Napa County Flood Control and Water Conservation District • Steve Arakawa, MWD of Southern California • Deven Upadhyay, MWD of Southern California • Jon Pernula (by phone), Palmdale Water District 	<ul style="list-style-type: none"> • Bob Perreault, Plumas County Flood Control & Water Conservation District • Douglas Headrick, San Bernardino Valley Municipal Water District • Jeff Davis, San Geronio Pass Water Agency • Matt Naftaly (by phone), Santa Barbara County Flood Control & Water Conservation District • Ray Stokes, Santa Barbara County / Central Coast Water Authority • Joan Maher, Santa Clara Valley Water District • David Okita, Solano County Water Agency • Mark Gilkey, Tulare Lake Water Storage District and County of Kings • Lisa Kern (by phone), Ventura County Flood Control District <p><u>California Department of Water Resources</u> <u>Staff</u></p> <ul style="list-style-type: none"> • Ted Alvarez, California Department of Water Resources • Mark Andersen, California Department of Water Resources • Cathy Crothers, California Department of Water Resources • Terri Ely, California Department of Water Resources • Scott Jercich, California Department of Water Resources • Kathie Kishaba, California Department of Water Resources • Philip LeCocq, California Department of Water Resources
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<ul style="list-style-type: none"> • Dave Paulson, California Department of Water Resources • Nancy Quan, California Department of Water Resources • David Sandino (by phone), California Department of Water Resources • Elizabeth Scott, California Department of Water Resources • Dena Uding, California Department of Water Resources • Pedro Villalobos, California Department of Water Resources <p><u>State Water Project Contractors and SWC, Inc.</u></p> <ul style="list-style-type: none"> • Amparo Flores, Alameda County Flood Control and Water Conservation District, Zone 7 • Josh Nelson, Best, Best & Krieger LLP/Crestline Lake Water Agency • Tom Glover (by phone), Dudley Ridge Water District • Gary Bucher (by phone), Kern County Water Agency • Don Marquez, Kern County Water Agency • Jaime Dalida, MWD of Southern California • Kevin Donhoff, MWD of Southern California • David Reukema, MWD of Southern California • John Schlotterbeck (by phone), MWD of Southern California • Lynn Hurley, Santa Clara Valley Water District • Dana Jacobson, Santa Clara Valley Water District 	<ul style="list-style-type: none"> • Terry Erlewine, State Water Contractors, Inc. • Theresa Lightle, State Water Contractors, Inc. • Cliff Schulz, State Water Contractors, Inc. • Linda Standlee, State Water Contractors, Inc. • Steve Wickstrum (by phone), Ventura County Flood Control District <p><u>DWR Consultants for Contract Extension</u></p> <ul style="list-style-type: none"> • Erick Cooke, Environmental Science Associates • Cathy McEfee, Environmental Science Associates <p><u>Public</u></p> <ul style="list-style-type: none"> • Mark Bradley, Delta Stewardship Council • Debbie Espe, San Diego County Water Authority • Robert Kunde, Wheeler Ridge-Maricopa Water Storage District <p><u>Facilitation Team</u></p> <ul style="list-style-type: none"> • Alex Braunstein, Kearns & West • Charlotte Chorneau, Kearns & West • Michael Harty, Kearns & West • Kelsey Rugani, Kearns & West
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I. Welcome/Introductions

There were roundtable introductions of the negotiation teams, and staff. Members of the public were given the opportunity to introduce themselves.

II. Meeting Overview

Mike Harty reviewed the Meeting Ground Rules emphasizing respect and listening by DWR and SWP Contractors. He also reviewed the process for public comment at the end of the meeting.

Mike outlined the negotiation session agenda and stated that Objectives 3, 2a, and 2b will be discussed.

Mike then reviewed the action list from the May 15, 2013 negotiation session. Many of the action items will be addressed during the negotiation meeting today. The group finalized the May 15 Meeting Summary.

I. Objective 3: New Billing Procedure

Rob Cooke reported that the Objective 3 technical team had identified three major areas of the contract to be changed: Project Interest Rate, project repayment, and the Water Systems Revenue Bond (WSRB) surcharge. Articles 22 to 29 and Article 50 would need to be modified as part of an amendment. Ray Stokes advised that DWR and SWP Contractors are in agreement that the Project Interest Rate is central to Freeze-Go. Specifically, under Freeze-Go all capital costs incurred prior to the implementation of the contract amendments will be subject to the Project Interest Rate. Upon implementation of the contract amendment, all new capital costs incurred from that point to 2035 and beyond shall be on a pay-as-you-go basis.

SWP Contractors proposed eliminating the Project Interest Rate on over- and under-collections. Ray noted that DWR is currently paying 4.61 percent interest on overpayments to the Contractors, which comes out of 51e revenues. Under Freeze-Go there will be no 51e source to pay for interest after 2035. Ray suggested that Project repayment under "Go" should be eliminated. Under "Freeze" historical costs will continue to be recovered through the project repayment period to 2035.

Carl Torgersen reiterated that DWR's objective is a package of Agreements in Principle for all DWR Objectives: 1, 2a, 2b, and 3. He acknowledged the benefit of reaching conclusion on any one of the objectives; however, he affirmed that all objectives need to be addressed. Rob Cooke added that given the connections among DWR's objectives, it's best to discuss an AIP in the context of a comprehensive understanding of all objectives.

II. Objective 2a: Reserves

Perla Netto-Brown and Ray Stokes provided an update on the Objective 2a technical team meeting, which reviewed detailed information on cash flow and identified four key issues for the reserves topic:

- 1) The timing of power and O&M costs, which creates liquidity and cash flow issues.
- 2) Under-collection: If DWR under-collects on minimum and variable charges, it takes two years to make up the deficit.
- 3) Emergencies.
- 4) Unanticipated business expenses.

Ray Stokes added that the technical team seeks to quantify dollar amounts for each of these issues. Historically, DWR has under-collected on transportation, but not in variable or minimum overall. Ray indicated that SWP Contractors have sufficient information to prepare a counterproposal for DWR.

Perla Netto-Brown suggested that in the case of emergencies the proposed Reserves account could be used for any project purpose. Perla offered the example of an emergency where a recreation cost that is 5 percent of the total project cost causes delays in needed repairs. Carl Torgersen clarified that such emergencies would be extremely rare and would likely involve costs that cannot be funded or replenished by the SWP Contractors. If reserves are used for initial financing of emergency costs, DWR would seek reimbursement through Davis-Dolwig, the Legislative Process, and the proposed Other Project Purposes account.

SWP Contractors asked for clarification on the differences between the Reserves and Other Project Purposes accounts. Steve Cohen suggested that there could be overlap, but under emergency uses of reserves DWR would only be charging SWP Contractors for the allocated portion of the water supply. If DWR were going to use funds for other purposes, funds would be acquired from another source. Steve suggested that concerns over drawing down reserves for emergencies point to the need for an Other Project Purposes Account. Emergency use of reserves, in the worst case, would result in a reduction in reserves for needs other than water supply. The discussion that followed included the following points:

- Ray Stokes suggested that a permanent reduction in reserves after 2035 would potentially harm the DWR and SWP Contractors and undermine the stability of the project.
- Perla Netto-Brown acknowledged the concern and stated that the objective is not to diminish reserves. In the case of an emergency, however, there is a common interest in getting the project repaired as soon as possible so that it doesn't interrupt water supply delivery.
- Carl Torgersen gave the example of facilities on the Upper Feather River whose purpose is 100 percent fish and wildlife enhancement; having access to reserves in the case of an emergency would be useful. Steve Cohen offered the example of a water aqueduct blowout.
- Deven Upadhyay asked if an Other Project Purposes account would alleviate the need for making the Reserves account available for emergency uses?
- Ray Stokes requested confirmation that Article 51e, after cash management, would fund Reserves under the current 2a proposal.
- Paul Gosselin suggested that, given different budget cycles and fiscal situations, it may be difficult for DWR to justify funding requests to the Governor or Legislature if the costs of an emergency were already covered through existing accounts.
- Steve Cohen stated that, from DWR's perspective, funding emergency repairs on project facilities is the number one priority to keep the project running. DWR wants to be able to access reserves to pay for emergencies, but DWR would not be billing the Contractors beyond charges associated with providing water supply.

III. Objective 2b: Other Project Purposes Account

Steve Cohen and John Schlotterbeck gave an initial report on the 2b technical team meeting, noting that Objective 2b discussions are not as far along as those for Objective 3 and Objective 2a. Steve reported that DWR provided an overview to the 2b technical team on the Department's concerns that after 2035 DWR will not have a billing system that provides the cash flow for costs without a beneficiary or funding source. SWP Contractors wanted to know that an Other Project Purposes account would not reduce DWR efforts to address the lack of a beneficiary or funding source, including Davis-Dolwig or Parks and Recreation funds to cover costs. There was some discussion of cash flow needs for multi-purpose projects, where there is a need to fund non-water supply purposes or activities. Questions included how would such a fund be funded and might there be a percentage surcharge? SWP Contractors also questioned whether cash flow would be an issue if the current billing system were maintained.

SWP Contractors raised a number of questions related to Objective 2b:

- What do we mean by projects have no funding source or beneficiary?
- What are examples?
- What is the size of the fund?
- How much will be contributed by SWP Contractors?
- What is the mechanism?
- What kind of SWP Contractor input or control will there be on how the money is expended?

The discussion that followed included the following points:

- Ray Stokes suggested that the fund is being proposed for costs that are currently suspended and paid for by Davis-Dolwig, and that the Davis-Dolwig problem is a real problem. Would DWR essentially be charging contractors for Davis-Dolwig costs?
- Dan Flory speculated that DWR's concern is that if we move to "pay-as-you-go" after 2035, there will be a need for additional funds. In other words, "pay-as-you-go" cuts it too close for the Department. Dan suggested that a possible solution may be a "98 percent Go."
- Perla Netto-Brown acknowledged that rather than a straight "Go," one approach might be a "Go plus," with the "plus" used for cash flow.
- Ray Stokes confirmed that no negotiations take place in the course of technical team discussions.
- Steve Cohen agreed that the technical teams can consider ideas on what the fund is for, how it might be used, etc., but that the technical team cannot negotiate.
- David Okita commented that the 2b technical team meetings sound productive and they should proceed with scheduling future sessions.

- John Schlotterbeck added that it was his understanding that DWR will work on the scope and mechanics of 2b prior to the next meeting. DWR affirmed.

IV. Next Steps

Mike reviewed the schedule, including public negotiation dates that will be used as needed, and asked for input on progress, staffing, internal discussions, and resources. David Okita stated that SWP Contractors wanted to focus on June 26 proposals, and suggested that the June 12 Negotiation Session be canceled. Carl agreed, indicating that key DWR staff would be unable to attend on June 12, so focusing on June 26 was fine. He suggested the goal of deeper level discussions on the 26th and expressed the hope that Agreements in Principle could reach conclusion fairly quickly. Mike asked the group to consider the impact of this schedule change on action items and the overall negotiation timeline. Charlotte Chorneau reviewed the action items.

V. Public Comment

There were no requests to provide public comment.

VI. Adjourn

The meeting was adjourned.

Action Items		Responsibility Due Date
1.	May 15 Negotiation Session Meeting Summary to be finalized and posted on website.	Kearns & West ASAP
2.	Objective 3: Hold a technical team meeting to discuss the interests and issues related to 1hh, including the Water Supply Revenue Bond Surcharge, the Project Interest Rate under "Go," and a possible amendment to 1hh. Consider developing a table that compares current Project Interest Rate calculations to calculations after 2035.	Rob Cooke, Ray Stokes Prior to 6/26
3..	Objective 2a: The Contractors will meet and prepare a response to DWR that includes cash management ideas.	David Okita, Deven Upadhyay Prior to 6/26
4.	Kearns & West and DWR will develop solutions for phone quality issues.	Kearns & West Prior to 6/26
5.	Objective 2b: Schedule and hold the next 2b technical team meeting.	Steve Cohen, John Schlotterbeck Prior to 6/26
6.	May 29 Negotiation Meeting Summary drafted.	Kearns & West ASAP